

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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INFO AMEMBASSY BUENOS AIRES
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E.O. 11652: N/A
TAGS: CI ECON EFIN ELAB
SUBJECT: PRESIDENT PINOCHET SPEECH

1. SUMMARY. APRIL 28 PRESIDENT PINOCHET ANNOUNCED
IMPORTANT ECONOMIC POLICY STEPS DURING A NATION-WIDE RADIO
AND TELEVISION BROADCAST. REFLECTING COUNTRY'S SLOWLY
IMPROVING ECONOMIC STATUS, SPEECH CONTAINS IMPORTANT
MEASURES TO INCREASE PURCHASING POWER OF CONSUMERS
GENERALLY. MEASURES WILL INCLUDE LOWERING INCOME TAX
RATES, ADDITIONAL WAGE READJUSTMENTS FOR PUBLIC SECTOR
EMPLOYEES AND PROFESSIONAL PERSONNEL, AND LARGER PUBLIC
INVESTMENTS IN HOUSING. END SUMMARY.

2. IN AN ADDITIONAL EFFORT TO EASE HARDSHIP AND INEQUITY
AND TO REACTIVATE A SLOWLY MOVING ECONOMY, PRESIDENT
PINOCHET ANNOUNCED A SERIES OF FISCAL AND MONETARY MEASURES
TO BE ENACTED IMMEDIATELY, INCLUDING:

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3. WAGE INCREASES. SALARIES AND WAGES FOR PUBLIC
SECTOR EMPLOYEES, PENSIONERS AND MILITARY PERSONNEL
WILL BE INCREASED BY 4 PERCENT AS FROM MAY 1, 1977.
TOP GOC OFFICIALS WILL RECEIVE AN ADDITIONAL INCREASE
OF 40 PERCENT ABOVE THEIR PRESENT INCOME LEVEL. A
SPECIAL ALLOWANCE FOR PROFESSIONALS WORKING FOR THE
PUBLIC SECTOR, WHICH RANGE FROM 25 PERCENT TO 70

PERCENT, WILL BE INCREASED BY ABOUT 10-20 PERCENTAGE POINTS. AT THE SAME TIME, THE TAX EXEMPTION LEVEL FOR LOWER INCOME EARNERS WAS INCREASED BY 50 PERCENT.

4. THE UNIVERSITIES WILL RECEIVE A FISCAL SUBSIDY TO INCREASE SALARIES FOR FULL-TIME TEACHERS. THE LATTER WILL NO LONGER BE UNDER THE PUBLIC SECTOR SALARY SCALES. THE SUBSIDY IS ESTIMATED AT 250 MILLION PESOS (ABOUT \$13 MILLION).

5. TARIFF REDUCTION. A GENERAL TARIFF SCHEDULE REDUCTION WHICH WAS DUE IN JUNE THIS YEAR WILL BE PUT INTO FORCE MAY 1, 1977.

7. HOUSING. PUBLIC INVESTMENT IN THE HOUSING SECTOR WILL BE INCREASED BY 350 MILLION PESOS (ABOUT US\$18 MILLION). THIS REPRESENTS A 14 PERCENT INCREASE IN THE ORIGINAL HOUSING INVESTMENT BUDGET OF THE GOC. PROPERTY SALES TAX WILL BE REDUCED FROM 4 PERCENT OT ONE PERCENT.

8. BANKING RESERVE REQUIREMENTS. LEGAL RESERVE REQUIREMENTS OF THE BANKING SYSTEM WILL BE REDUCED AS FROM MAY 1, 1977. (DATE AND ACTUAL PERCENTAGE ARE NOT BEING MADE PUBLIC PRINCIPALLY IN ORDER TO FORESTALL SPECULATORS.)

9. COMMENT. ALL MEASURES DESCRIBED ABOVE REAFFIRM THE GOVERNMENT'S CONFIDENCE IN THE ECONOMIC MODEL THAT LIMITED OFFICIAL USE

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IT HAS FOLLOWED SINCE MARCH 1975. RUMORS THAT THE GOC WOULD CHANGE DIRECTION IN CERTAIN POLICY AREAS, FOR EXAMPLE DEVALUING THE PESO OR REINTRODUCING PRICE CONTROLS, PROVED TO BE WRONG.

10. THE ONLY EXCEPTION TO CONTINUED AUSTERITY IS PUBLIC INVESTMENT WILL BE THE PROJECTED INCREASE IN HOUSING EXPENDITURES. STAGNATION IN THE HOUSING SECTOR HAS BEEN GREATER THAN IN ANY OTHER. MOREOVER, IT IS ONE OF THE LARGEST POTENTIAL EMPLOYERS OF LESS SKILLED WORKERS, WHO MAKE UP THE BULK OF THE UNEMPLOYED.

1. INCOME TAX REDUCTIONS COMBINED WITH HIGHER WAGES WILL RESULT IN AN ESTIMATED INCREASE IN PURCHASING POWR OF US\$200 MILLION DURING 1977. TO COUNTERACT POSSIBLE INFLATIONARY PRESSURES RESULTING FROM THESE MEASURES, THE GOC ADVANCED THE TARIFF SCHEDULE REDUCTION DUE IN JUNE. IMPORTED CONSUMER GOODS SO FAR HAVE ACTED AS A BARRIER AGAINST LOCAL PRICE SPECULATION.

AS TARIFFS ARE FURTHER LOWERED AND WITH THE PESO HAVING BEEN REVALUED TWICE DURING THE PAST TWELVE MONTHS, IMPORTS SHOULD EXERCISE A FURTHER DAMPENING EFFECT ON PRICES.

12. WERE IT SET FOR SUBSTANTIAL FOREIGN CURRENCY EARNINGS OF THE NON-TRADITIONAL EXPORT SECTOR, INCREASED IMPORTS PLUS A DEPRESSED COPPER PRICE MIGHT UPSET CHILE'S PRESENTLY FAVORABLE BALANCE OF PAYMENTS. THE COMBINATION OF REVALUATION PLUS TARIFF REDUCTION SHOWS CONFIDENCE IN MAINTAINING THE CENTRAL BANK'S NET DOLLAR RESERVE POSITION. MOREOVER, IT REFLECTS STRONG INTEREST IN LOWERING FINAL COSTS TO LOCAL PRODUCERS DEPENDENT ON IMPORTED RAW MATERIALS AND MACHINERY.

13. ANNOUNCED REDUCTIONS IN THE LEGAL RESERVE REQUIRE-LIMITED OFFICIAL USE

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MENTS OF THE BANKING SYSTEM WILL ENABLE THE BUSINESS SECTOR TO OBTAIN LESS EXPENSIVE CREDIT. THIS COULD STIMULATE PRODUCTION AND EMPLOYMENT TO MATCH THE EXPECTED GROWTH IN CONSUMER DEMAND.

14. APART FROM THE GENERAL ECONOMIC EFFECT OF THE PROPOSED MEASURES, WE NOTE IN THE PRESIDENT'S SPEECH A DESIRE TO DO SOMETHING FOR SPECIFIC GROUPS: PROFESSIONALS WORKING FOR GOVERNMENT, UNIVERSITY TEACHING STAFF, AND THOSE WITH LOW INCOME AND THE UNEMPLOYED. FOR THE FORMER GROUPS THIS WAS A NECESSARY STEP TO CURB LEAKAGE INTO THE PRIVATE SECTOR AND OUT OF THE COUNTRY.

15. WHILE PURELY ECONOMIC IN ITS CONTEXT, THE SPEECH DOUBTLESS HAD AN UNDERLYING POLITICAL PURPOSE. IT WILL DIMINISH DISATISFACTION AMONG GROUPS HITHERTO LEAST BENEFITTED BY GOC ECONOMIC PROGRAMS AND FORTIFY THE PRESIDENT'S PERSONAL POSITION AND HIS ABILITY TO WITHSTAND DIFFICULTIES WHICH MAY LIE AHEAD.
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